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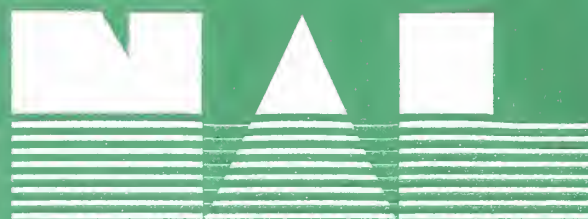
# Health and Life Insurance Coverage of Local Government Employees

Staff Report AGES 811106

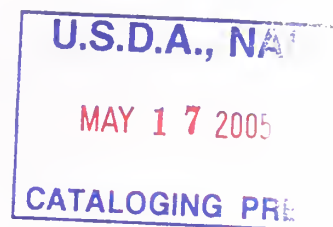
November 1981

By Leon B. Perkinson

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HEALTH AND LIFE INSURANCE COVERAGE  
OF LOCAL GOVERNMENT EMPLOYEES

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#### ABSTRACT

Local government full-time employees with health and life insurance paid for, at least in part, by employers increased considerably faster than employment between 1967 and 1977. Despite the increase in public employee coverage rates, the coverage rates in the private sector remained higher. Within the public sector, coverage rates of governmental units located within counties of the largest SMSAs were higher than the rates found for governmental units located within totally rural non-metropolitan areas. A larger percentage of employees -- private or public, metropolitan or nonmetropolitan -- had health insurance coverage than had life insurance coverage.

KEY WORDS: Public sector benefits, insurance, local government, private sector, rural areas, urban areas.

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## Health and Life Insurance Coverage of Local Government Employees

By

Leon B. Perkinson\*

Public sector fringe benefits have been an area of growing concern because the number of employees has increased, inflation induced costs have increased, and there has been a general "economy" mood associated with the tax-expenditure limitation movement in many states. Both private and public employees receive benefits above and beyond stated wages or salaries. Benefits are an important component of employee compensation since only about 75 percent of compensation was pay for time worked (10, p. 428). 1/ Benefits include company sponsored pensions, paid "nonwork". profit sharing, life insurance, health insurance, dental insurance, accident insurance, disability insurance, bonuses, and so forth. Paid "nonwork" includes various combinations of vacation, holidays, personal leave, sick leave, rest breaks, and so forth. Not all of these benefits are necessarily available to all employees of all firms however. In addition, the level of benefits associated with each may vary, and the employer's share of costs may range from paying all costs to paying only a small percentage of costs. These variations may occur within a firm, between firms, or across industries.

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1/Underscored numbers in parentheses refer to items in the References section at the end of the report.

Considering the concern for public employee benefits, the objective of this paper is to examine the general availability of life and health insurance benefits for local government employees. 2/ Benefits will be examined in several ways. First, public sector life and health insurance coverage will be compared with private coverage since public benefits may exist to be more competitive with the private sector (or vice versa) in the labor market. Second, local government life and health insurance benefits coverage is examined for governmental units located within and outside Standard Metropolitan Statistical Areas (SMSAs). Metropolitan areas are subdivided on the basis of population and nonmetropolitan areas are subdivided on the basis of size of urban population within a county and whether or not the county was adjacent to a SMSA. 3/

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2/Public employee retirement systems are important fringe benefits but availability and coverage of such systems has been discussed in other places (5). Life and health insurance benefits are also important accounting for approximately five percent of gross payroll in the private sector. Health insurance includes hospital and disability insurance.

3/Public employee fringe benefit coverage (insurance) reported here are based on county area aggregates. County areas represent the simple summation of all governmental units within a county. Small municipalities and townships with less than 2,500 population and other small governmental units were generally not queried on fringe benefits available for employees. One would expect this to exclude a greater proportion of governmental employees in nonmetropolitan areas than in metropolitan areas.

Metropolitan areas were those identified in 1975 and were disaggregated into: greater metropolitan -- SMSAs with at least 1 million population with "core" counties containing the primary central city and "fringe" (suburban) counties; medium metropolitan -- counties of SMSAs of 250,000 to less than 1 million; and small metropolitan -- counties with less than 250,000 population. Nonmetropolitan counties were classified into: urbanized -- counties with an aggregate urban population of at least 20,000; less urbanized -- counties with an urban population from 2,500 to 19,999; and totally rural -- counties with less than 2,500 urban population. All nonmetropolitan counties were further divided into those adjacent to and those not adjacent to a SMSA. For more details on the development of this classification system, see (3, p. 4).

## Insurance Coverage

### Private vs. public coverage

Life and health insurance fringe benefits are almost universally available in the private sector. A Chamber of Commerce survey in 1975 determined that 98 percent of firms offered health insurance benefits and 91 percent offered life insurance benefits to their employees (1, p. 18). A Conference Board survey conducted in late 1972 and 1973 indicated 95 percent of firms offered major medical insurance for office workers and 86 percent of firms had major medical insurance for nonoffice workers (4, p. 11). 4/. Only five percent of firms restricted nonoffice workers to a basic health plan. The combination of major medical with basic health plans implied all firms offered some form of health insurance. In addition, almost 100 percent of the firms were found to offer group life insurance.

The Conference Board and the Chamber of Commerce studies of firms' life and health insurance did not provide information on coverage of employees. 5/ About 93 percent of plant workers and 97 percent of office workers were covered by life insurance while over 95 percent of plant workers and over 98 percent of office workers had some form of health insurance in 1974-76 (10, p. 429). A pilot study of workers' benefits in larger firms indicated about 97 percent of workers had health insurance and 96 percent had life insurance (11, p. 4).

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4/The Conference Board and the Chamber of Commerce studies were conducted on fairly large firms. The Chamber of Commerce study was generally for firms with more than 100 employees (1, p. 33) while minimum employment for the Conference Board study was 250 employees or more depending upon the type of industry (4, p. x).

5/Employees would not necessarily be automatically included since some might reject coverage if they felt their contribution was too great for their perceived benefits. Also, since both the Chamber of Commerce and the Conference Board examined larger firms, one would expect firm participation rates to be high since larger firms would be more likely to provide such benefits.

The average cost to employers for life, accident, and health insurance combined was over five percent of payroll (1, p. 22). 6/ Private nonfarm establishments with 20 or more workers also paid almost five percent of their gross payroll for life, health, and accident insurance benefits (10, p. 428). Despite 70 percent of the companies reporting employee payroll deductions for such benefits, the employee contribution was only one percent of payroll (1, p. 19, 23). Those companies reporting no employee contributions apparently paid the complete costs.

Friend and Bencivenga concluded from their study of municipal governments with over 10,000 population that 99 percent of the units offered health insurance benefits but only 80 percent offered life insurance benefits. The percentage of governmental units offering health insurance benefits was comparable to the private sector but the percentage offering life insurance benefits was less than occurred in the private sector. Full-time municipal employees with health insurance coverage ranged from 77 percent to 94 percent (6, p. 84): 77 percent of municipal full-time employees were reported to have health insurance coverage, six percent were reported to be without coverage, and the remaining 17 percent were not reported. Some, but probably not all, with coverage not reported would be expected to have coverage. Assuming all of those with coverage not reported actually had insurance, a maximum of 94 percent of municipal employees had health insurance coverage. Only then does this approach the over 95 percent coverage rate found for private sector employees.

Less than 90 percent of all local government employees had health insurance coverage and less than 75 percent had life insurance coverage in 1977, considerably less than the percentage of private sector workers with

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6/Life, health, and accident insurance costs were combined in the report.

coverage (6, p. 84). Local government employee coverage could be available to considerably fewer employees than indicated here however. Eleven percent of employees were without health insurance coverage and 27 percent were without life insurance coverage. However, coverage was not reported for 17 percent and 19 percent of employees for health insurance and life insurance, respectively. These were all assumed to have coverage to reach the coverage rates stated above. If all with coverage unreported were without insurance, then only 75 percent of full-time employees had health insurance and only 57 percent had life insurance coverage instead of the maximum of 89 percent and 73 percent, respectively.

A smaller percentage of public employees had life and health insurance fringe benefits than what was found for the private sector. The difference between the private and the public sector depended upon the type of insurance and how the unreported coverage of public employees was handled. The public and private insurance differences in coverage could exist because the populations studied were different. For example, the private sector data were for larger firms and for employees generally located in metropolitan areas. Small firms and employees in nonmetropolitan areas might be less likely to have insurance coverage. Public sector data were for all areas -- metropolitan or nonmetropolitan. Simultaneously, small municipal township governments (population less than 2,500) generally did not report employee benefits and would therefore be among those "not reported." The lack of data for small units would likely bias public sector insurance coverage rates upward.

The types of employees also vary between the private and the public sector. The public sector data were for full-time employees. The private sector data were for all employees: full-time and part-time. Since part-time employees may not always be eligible for the same benefits as full-time



employees, private sector employee coverage rates may be understated compared to what they would be for full-time employees only. Public employee coverage rates may be overstated compared to what they would be for all employees. Therefore, the differences found between the private and public sectors might be even greater than would otherwise be indicated.

The changes in public employee benefits coverage through time are examined first. If smaller firms and firms in nonmetropolitan areas were less likely to have benefits such as insurance coverage, public sector benefits might also be less available in nonmetropolitan areas. Public employee life and health insurance coverage were therefore examined for metropolitan and nonmetropolitan areas to evaluate this hypothesis. <sup>7/</sup> Regional differences in insurance coverage were then examined.

#### Public coverage increases

A maximum of 89 percent of full-time local government employees had health insurance coverage and 73 percent had life insurance coverage in 1977. Both of these were lower than the coverage rates for private sector employees. Nevertheless, coverage rates in 1977 were higher than coverage rates for prior periods. In 1967, one-half of the full-time employees were reported to have health insurance coverage and 39 percent were without coverage. Coverage was not reported for 11 percent <sup>8/</sup> (table 1). The percentage of employees with health insurance coverage reported increased to 63 percent by 1972 and the percentage reported as not having health insurance benefits

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<sup>7/</sup>The discussion of life and health insurance rests only on whether or not employees were covered. Data were not available to indicate benefit levels or the employer-employee costs for the public sector. The Conference Board study presented some information on private sector benefit levels.

<sup>8/</sup>The 1962 data are presented mainly as an exhibit because of the large percentage with unknown or not reported coverage.

Table 1. Full-time local government employees covered by health and life insurance, 1962-1977.

Item	Health Insurance <u>a/</u>		Life Insurance	
	Number (000)	Percent	Number (000)	Percent
1977				
Covered	5,179	72.1	3,919	54.5
Not covered	780	10.9	1,933	26.9
Not reported	1,226	17.1	1,333	18.6
1972				
Covered	3,968	63.3	2,837	45.3
Not covered <u>b/</u>	1,064	17.0	2,111	33.7
Not reported	1,233	19.7	1,317	21.0
1967				
Covered	2,633	50.4	1,245	23.8
Not covered	2,013	38.5	3,012	57.6
Not reported	582	11.1	971	18.6
1962				
Covered <u>c/</u>	1,377	32.3	789	18.5
Unknown <u>c/</u>	2,887	67.7	3,475	81.5

a/Includes hospital and/or disability insurance coverage.

b/Computed from source as only "covered" and "not reported" specified.

c/Only covered employees listed by source. Therefore "not covered" and "not reported" combined.

Source: (6, p. 84; 7, p. 77; 8, p. 27; and 9, p. 27).

had been cut in half. Unfortunately, the percentage with coverage not reported increased to almost 20 percent. By 1977, the percentage with health insurance coverage increased to 72 percent, the percentage without coverage decreased to 11 percent, and the percentage with coverage not reported fell to 17 percent.

While the percentage of public employees with health insurance benefits increased and the percentage without coverage decreased over time, those with coverage not reported created difficulty in interpreting the data unambiguously through time. That is, the changes in percentages of employees with or without coverage may be related only to variations in reporting overtime. However, there were some increases in coverage identifiable despite the problems associated with the unreported group. The percentage of employees not covered (11 percent) combined with coverage not reported (17 percent) represented the maximum "not covered" (28 percent) in 1977. In 1967, over 38 percent were reported to be without coverage and another 11 percent were not reported and could also be without coverage. Therefore, employees with health insurance coverage increased at least ten percentage points during the 10 year period.

Combining those with no coverage and those with life insurance coverage not reported also resulted in clearly defined changes over a ten year period. For example, 55 percent of employees had life insurance benefits, 27 percent did not have life insurance benefits and 19 percent were not reported in 1977 (table 1). The maximum percentage of employees without life insurance benefits would be over 45 percent (not covered and not reported) compared to almost 58 percent who were not covered in 1967. Life insurance coverage was extended to a greater percentage of employees over the period. This occurred during a time when the number of full-time employees increased 37



percent. Health insurance coverage and life insurance coverage of full-time local government employees increased between 1967 and 1977 despite the "not reported" category.

#### Metro-nonmetro health insurance coverage

Although coverage expanded rapidly, relatively few public employees had coverage compared to private sector employees. Private sector insurance coverage data tended to be either for larger firms or for more populous areas, while public sector insurance coverage data was a composite for all areas of the United States with "not reported" data coming, at least in part, from small governmental units. One would expect that public sector coverage rates from metropolitan areas to be more comparable with private sector coverage. Therefore, differences in public sector coverage rates between metropolitan and nonmetropolitan areas are examined in this section. The major emphasis is on national relationships, but regional variations are also briefly noted.

In 1977, 76 percent of local government full-time employees in metropolitan areas were reported to have health insurance coverage compared to 61 percent of employees in nonmetropolitan areas (table 2). While 9 percent in metropolitan and 16 percent in nonmetropolitan areas were reported to have no health insurance coverage, coverage was not reported for 15 percent and 24 percent, respectively. <sup>9/</sup> A smaller percentage of employees in non-metro areas had coverage reported and a larger percentage were reported to be without coverage than occurred in metro areas. This relationship

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<sup>9/</sup>Health and life insurance coverage is discussed for 1977 only because the data that would permit the metro-nonmetro disaggregation for 1972 were apparently not complete. See the Appendix for more information on this.



may be inaccurate because of the relatively large percentage with coverage not reported. For example, if coverage existed for all of those not reported in nonmetro areas, 84 percent would be covered. Coverage in nonmetro areas would exceed coverage in metro areas so long as less than one-half of those in metro areas with coverage not reported actually had coverage. If coverage rates of those not reported were larger than one-half, then coverage rates in metro areas would be greater than in nonmetro areas. As the assumed coverage rate for unreported employees of nonmetro areas decreases, the possibility of metro area coverage exceeding nonmetro coverage increases.

The "not reported" coverage category did not obscure all differences between areas however. Core counties of greater metropolitan areas (1 million population or more) and totally rural counties represent opposite ends of a population concentration spectrum. The maximum percentage of local government employees without health insurance in core metro counties was 20.3 percent ("not covered" plus "not reported"). A minimum of 20.8 percent were reported to be without coverage in totally rural counties (table 2). This technique nevertheless indicated a clear cut, though negligible, difference between county areas at the opposite ends of population concentration. The difference would increase as at least some of those "not reported" in core metro areas would have coverage and some of those "not reported" in total rural counties would be without coverage. 10/

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10/The percentage of employees with coverage not reported was fairly consistent across metro counties and urbanized nonmetro counties ranging from 4 percent to 18 percent. The percentage of employees with coverage not reported in less urbanized and totally rural nonmetro counties ranged from 24 percent to 30 percent. The difference in reporting perhaps reflects the survey procedure used by the Census Bureau for not collecting coverage data for small units of government.

A greater percentage of employees in metro areas had health insurance coverage reported and a smaller percentage was reported to be without coverage than occurred in nonmetro areas regardless of region (table 2). These differences between core metro areas and totally rural nonmetro areas were consistent across regions. A greater percentage of employees were reported to be without coverage in the West than for any other region. Reported coverage was lower and those reported to be without coverage was higher in the South than for any other region. The percentage not reported was large enough to inhibit absolute conclusions on differences in coverage among regions.

#### Metro-nonmetro life insurance coverage

Life insurance coverage was generally not as prevalent as health insurance coverage in either the private or the public sector. No more than 73 percent of government employees had life insurance benefits (table 3), assuming those with coverage not reported actually had life insurance benefits. In contrast, at least 72 percent had health insurance coverage. Compared with health insurance, a larger percentage of employees were known to be without life insurance coverage and a larger percentage did not have coverage reported. Nevertheless, differences between metro areas and the more rural nonmetro counties persisted. For example, no more than 40 percent of local government employees in metro areas were without life insurance coverage in 1977. In contrast, at least 40 percent of those in totally rural nonmetro counties were without such coverage. 11/ Generally,

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11/This comparison assumes all in the not reported category in metro areas had no coverage and were therefore added to "no coverage." The percentage for totally rural counties was those reported to be without life insurance coverage. That is, the unreported in totally rural counties would all be assumed to have coverage. The contrast would most likely be greater than shown since it is unlikely that the assumed extremes would be realized for either area.





the percentage with coverage decreased and the percentage without coverage and with unknown coverage increased, moving from the largest metropolitan areas to the smallest nonmetropolitan areas.

#### Summary and conclusions

The health and life insurance coverage rates for full-time local government employees increased dramatically between 1967 and 1977 but were still not as high as the coverage rates for private sector employees. The private sector information was obtained from larger firms and from firms primarily located inside SMSAs. Coverage rates of public sector employees of larger municipal government units or local governments located in metropolitan areas were more similar to the private sector coverage rates. The governmental coverage rates were still not as high as those prevailing in the private sector. Coverage rates were higher for health insurance than found for life insurance for both the private and the public sector.

Within the public sector, the coverage rates in counties with the larger concentrations of population (core counties of metropolitan areas of 1,000,000 or more) were greater than the coverage rates of totally rural nonmetropolitan counties. This relationship was found for both health and life insurance and was consistent for each of the four major regions of the United States. In both metro and nonmetro areas, health insurance coverage rates were higher than the coverage rates for life insurance coverage.

These conclusions appear to be particularly reliable. For our purposes, those with coverage not reported were considered to be either all covered or all not covered. As it is not likely that the not reported group would follow such an extreme distribution, the use of extremes presents a cautious view of coverage and would tend to understate rather than overstate differences in coverage.

Costs for providing employee benefits have most likely increased since the number of employees increased and the coverage rate increased. Local government managers may be faced with increasing costs if there is pressure for the public sector to keep pace with the coverage rates of the private sector. If the public sector compensation package emphasizes other types of compensation offsetting the insurance coverage of private sector employees, then pressure to increase coverage would be tempered. Governmental units not currently offering such benefits would most likely feel the most pressure. Costs may also increase for governmental units already providing health and/or life insurance coverage if local private employers tend to pay a greater share of the costs than paid by public employers. The more rural local governments may face the more pressure of increased costs since the coverage rates were the lowest in such areas.

Potential pressures of increased costs occurs at a time when there are many other financial pressures as well. Given the increase in tax and expenditure limitations, the rising costs of retirement provisions, and employees concerned with maintaining real wages, it is not likely that the differences between private and public coverage rates or between public metropolitan and public nonmetropolitan coverage rates will be eliminated soon.

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## APPENDIX

### Data Reliability

The governmental employment data published by the Bureau of the Census were not always consistent with that available from data tapes made available by the Bureau of the Census. This difference apparently occurred because data corrections made prior to publication were not always made on the data tapes available from the Census. In addition, the published data would not agree exactly with the data presented in this paper because Alaska and Hawaii were not included in the detailed analysis of Tables 2 and 3. Alaska was excluded because of difficulties associated with maintaining metro status classifications. Hawaii's counties would also not fit the geographic metro status classification system well since each county is basically a separate island. Although the health insurance coverage rate was lower and the life insurance coverage rate was higher than the national average, their exclusion should not affect the results of this study since only 26,000 of the 7.2 million full-time employees were in these two states.\*

The published data and the data available for this study were examined for consistency. In 1977, the difference between the published data and the data used was only 1,047, a .01 percent difference (Appendix table 1). The number of employees with health or life insurance coverage was identical between the sources and only slight differences, about .05 percent, were noted for the number of employees without coverage and with coverage not reported.

The close congruence between data sources did not exist for 1972 however. Major changes were apparently made since the published number for those with insurance benefits not reported was reduced by almost 25 percent for both health and life insurance. Almost 90 percent of those reclassified from

"not reported" for health insurance and over 80 percent for life insurance were shifted to "covered" status. This change increased the percentage classified as "covered" by at least 10 percent and increased the percentage without coverage by less than five percent.

Published data were used to examine changes in benefits occurring over time, but published materials were not adequate to analyze benefit coverage between metropolitan and nonmetropolitan areas. The detailed data available for this study seemed to be particularly unreliable for 1972 so 1972 was discarded from detailed analysis.

Appendix Table 1. Compatability of published data and data from tape source, 1977 and 1972.

	All employees	Health Insurance				Life Insurance		
		Covered	Not covered	Not reported		Covered	Not covered	Not reported
1977								
Published	7184516	5178594	780286	1225636	3918730	1932762	133302	
Tape source	7159551	5161759	776333	1221459	3900292	1930484	132877	
Adjustment <u>a/</u>	26012	16835	4382	4795	18438	2707	486	
Error	-1047	0	-429	-618	0	-429	-61	
1972								
Published	6265752	3968230	1064293 <u>b/</u>	1233229	2837026	2111313 <u>b/</u>	131741	
Tape source	6250950	3594552	1023497	1632901 <u>c/</u>	2490884	2042048	171801	
Adjustment <u>a/</u>	19067	14540	3039	1488	15444	1929	1694	
Error	-4265	359138	37787	-401160	330698	67336	-40229	

a/Data for Alaska and Hawaii not included in study.

b/Category not available from source. Computed residual.

c/Category not available on the tape source. Computed residual.



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